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COMMONWEALTH OF PENNSYLVANIA

POST-WAR PLANNING COMMISSION

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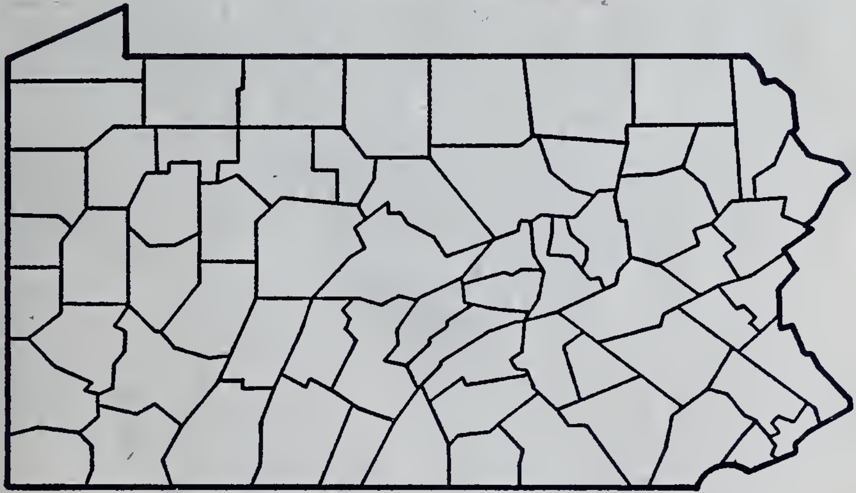

LOCAL GOVERNMENT FINANCE IN PENNSYLVANIA

PENNSYLVANIA POST-WAR PLANNING COMMISSION

Created by Act of General Assembly No. 51
April 28, 1943

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Local Government Finance in Pennsylvania

PENNSYLVANIA POST-WAR PLANNING COMMISSION

Harrisburg, Pa.

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Local government finance in
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LETTER OF TRANSMITTAL

COMMONWEALTH OF PENNSYLVANIA
PENNSYLVANIA POST-WAR PLANNING COMMISSION
HARRISBURG, PA.

THE HONORABLE EDWARD MARTIN,
Governor of Pennsylvania,
Harrisburg, Pa.

DEAR GOVERNOR MARTIN:

The Post-War Planning Commission presents the following report on Pennsylvania Local Government Finance. The purpose of the report is to review the general condition of public finance in the 5,241 political subdivisions of the Commonwealth, to determine the main problems that now call for attention, and to suggest possibilities for their solution.

The report was developed under the direction of the Honorable Charlie R. Barber, Mayor of Erie, Pennsylvania, and a member of the Commission, the Honorable William S. Livengood, Jr., Secretary of Internal Affairs, and Dr. H. F. Alderfer, Director of the Bureau of Municipal Affairs.

The members of the Commission extend their sincere thanks to all who have so generously given time and effort to the preparation of the report.

H. W. PRENTIS, JR.,
Chairman.

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Introduction . . .

The purpose of this report is to review briefly the general condition of public finances in the 5,241 political subdivisions of the Commonwealth, to point out the main problems that now call for attention, and to suggest possibilities for their solution. This report attempts to utilize, with due credit given, the research done in this field by the various state, local and private agencies and individuals who have worked in this field. It does not include documentary material and statistics which are available elsewhere or which are not germane to the particular subjects under discussion. Nor does it suggest specific drafts of legislation that might be adopted, this being the province of the Local Government Commission of the General Assembly itself. Rather the report aims at a comprehensive view of local government finances as the political subdivisions of the state approach the post-war period.

I. THE SCOPE OF LOCAL GOVERNMENT FINANCES

According to a Report by the Local Government Commission to the General Assembly made September 1, 1944,[1] total payments made by local governments of Pennsylvania in 1942 were as follows:

For 66 counties and institution districts (excluding Philadelphia)	$63,812,022
For Philadelphia (city-county government)	83,695,697
For the City of Pittsburgh	21,335,310
For the City of Scranton	2,361,912
For the 46 Cities of the Third Class	26,451,743
For the 937 Boroughs	25,519,513
For the 61 First Class Townships	7,992,518
For the 1,517 Second Class Townships (1941 figures)	8,798,079
For the 2,544 School Districts	198,032,812
Total Local Government Payments	$437,999,606

During the same year the Commonwealth made total payments amounting to $303,961,000. Of the combined total of $741,960,606, the Commonwealth's payments constituted 41 per cent; those of local governments 59 per cent. Although 1942 was a war year, the combined state-local total in 1939, a "normal" year, was almost identical—$741,234,556. The Commonwealth's payments in 1942 were in excess of those in 1939 by about five million dollars.

II. WHERE DOES THE MONEY COME FROM?

Revenue of local governments came from the following sources in 1942:[2]

		Per Cent of Total
Real Estate and Occupation Tax	$303,158,362	67.6
Personal Property Tax	8,867,038	1.9
Wage Tax, Philadelphia	26,438,886	5.9
Non-Tax Revenues	46,587,086	10.4
Grants from the Commonwealth	63,672,846	14.2
Total Local Government Revenues	$448,724,218	100.0

By classes of local units, the following distribution of revenues was obtained in 1942:[3]

		Per Cent of Total
For 66 counties and institution districts (excluding Philadelphia)	$65,703,416	14.6
For Philadelphia (city-county government)	89,203,653	19.9
For the City of Pittsburgh	21,976,552	4.9
For the City of Scranton	2,386,403	.5
For the 46 Cities of the Third Class	26,394,846	5.9
For the 937 Boroughs	26,492,988	5.9
For the 61 First Class Townships	7,505,697	1.7
For the 1,517 Second Class Townships (1941 figures)	12,144,592	2.7
For the 2,544 School Districts	196,916,071	43.9
Total Local Government Revenue	$448,724,218	100.0

In the same year the Commonwealth had total revenues of $381,607,000, making a combined total of $830,331,218. The Commonwealth's share was 46 per cent; the local governments' 54 per cent.

III. WHAT PORTION OF LOCAL GOVERNMENT REVENUE COMES FROM REAL ESTATE?

The percentage that real estate and occupation taxes were of total local government revenues in 1942 was as follows:[4]

In Allegheny County and institution districts	73 per cent
In 65 Third to Eighth Class Counties and institution districts	60 per cent
In Philadelphia—city and county	49 per cent
In the City of Pittsburgh	78 per cent
In the City of Scranton	87 per cent
In the 46 Cities of the Third Class	78 per cent
In the 937 Boroughs	78 per cent
In the 61 First Class Townships	82 per cent
In the 1,517 Second Class Townships (1941)	48 per cent
In the 2,544 School Districts	74 per cent
In all local governments[5]	68 per cent

It is thus apparent that the various classes of local units do not need to rely to the same extent upon real estate taxes for their revenues. Cities, with the exception of Philadelphia, boroughs and townships of the first class are most dependent upon this tax. In these units, the percentage that real estate taxes were of total revenues was 78 and over. These classes of local government have no other major sources of taxes or state grants. They derive their remaining revenues from departmental earnings, license fees and utility earnings, if any.

The City of Philadelphia derived 30 per cent of its revenues from its recently established wage tax. This brings down the percentage that real estate taxes are of total revenues to less than half of the total.

Counties benefit from the 4 mill personal property tax, which amounted in 1942 to about 10 per cent of the total revenues of the 65 third to eighth class counties. In addition, they obtain the return of one-half cent of the gasoline tax, which item amounted to 19 per cent of their total revenue.

Second class townships receive direct appropriations from the Commonwealth for highway purposes, and this amounted in 1941 to 38 per cent of total revenues. School districts in

1942 likewise received 24 per cent of their total revenues from direct grants from the state. Since Philadelphia, the counties, the second class townships and the school districts have major sources of revenue other than real estate, they can be regarded as favored classes of local units in Pennsylvania. It is extremely significant and important to remember that the urban units, except Philadelphia, are all in the same class as to their dependency upon real estate taxes.

Thus in 1942, out of the approximately $64 million of grants from the Commonwealth to local units, school districts received $47 million, counties including Philadelphia $11 million, and second class townships $4½ million. Cities, boroughs and first class townships together received less than $1 million, and their citizens constitute 7½ of the 10 million inhabitants of the state.

The percentage that real estate and occupation taxes are of total revenues, it is true, varies as between individual local units. In Luzerne County in 1942, the percentage that such taxes were of total local revenues ranged from 82 to 100% in boroughs, 85 to 90% in cities of the third class, 86 to 94% in first class townships, and 9 to 87% in second class townships.[6] In Allegheny County, this percentage ranged in cities of the third class from 82 to 95%, in boroughs from 70 to 100%, in first class townships from 67 to 96%, and in second class townships from 31 to 100%.[7] In school districts the percentage that state aid was of total revenue ranged from 7 to 47%.

IV. WHAT IS HAPPENING TO REAL ESTATE ASSESSMENTS?

In the 20-year period from 1922 to 1942, the assessed value of real property taxable for local purposes in the State increased about 10 per cent from $7,417,000,000 in 1922 to $8,184,000,000 in 1942.[8]

But this is not the whole story. Total assessed valuations increased in the decade from 1922 to 1932 to $9,418,000,000, or 27 per cent. But by 1942 they had dropped back to $8,184,000,000, a decrease of 13 per cent from the 1932 total.

1. *Trend by Counties, 1922-1942*

Within the Commonwealth there is a wide range of change in county assessed valuations during this period. Between 1922 and 1942, 36 counties increased in assessed valuation while 31 decreased. The range was from a 354 per cent increase in Pike County to a 79 per cent decrease in Schuylkill County. All the counties in the southeastern region including Philadelphia, Delaware, Montgomery, Chester, Bucks, Northampton, Lehigh, Berks and Lancaster showed a net increase. So did the extreme northeastern counties along the Delaware: Wayne, Pike and Monroe. A block of the south central counties, which are rich in both agricultural and industrial resources, gained. These include: York, Dauphin, Cumberland, Perry and Adams. Then there is a solid block of western and northwestern counties: Erie, Crawford, Venango, Mercer, Lawrence, Butler, Beaver, and Allegheny in which assessed valuations rose. Last, a number of counties describing a curved line from Lackawanna in the northeast to Bedford in the south central part of the State, including Wyoming, Lycoming, Columbia, Centre, Blair, Mifflin and Snyder, showed increases.

The counties which lost valuation are in five general areas. First, all the northern tier counties, except McKean, lost in assessed valuation. Contiguous forest counties of Sullivan, Forest, Elk, Cameron and Clinton also lost.

Second, the hard coal region, including Luzerne, Carbon, Schuylkill, Northumberland and the counties of Lebanon and Montour on the edge of this region registered declines. Lackawanna is the only county in this region that gained and this was because of a great rise in the boom twenties which was not all offset by the loss in the next decade.

Third, the great southwestern coal and industrial area with the exception of Allegheny County lost as a block. This includes Washington, Greene, Fayette, Somerset, Westmoreland, Indiana, Cambria, and Clearfield Counties.

The fourth general region to lose was the agricultural-forest counties in the south-central part of the State. These include Fulton, Franklin, Huntingdon, Union and Juniata.

In general, it must be concluded that during the two decades under consideration, it is the hard coal, the soft coal and forest counties in which net decreases in assessed valuation were generally registered.

2. *Trend by Counties, 1922-1932*

During the decade 1922 to 1932, when the total assessed valuations in the State rose more than two billion dollars, forty-eight counties increased and nineteen decreased. It is significant to know which counties declined in assessed valuation even during this period of general prosperity. They are in order of the rate of decline: Schuylkill, Lebanon, Forest, Sullivan, Potter, Fayette, Cameron, Indiana, Elk, Tioga, Somerset, Clearfield, Armstrong, Clinton, Luzerne, Bradford, Northumberland, Fulton and Greene. The range of decline from 1922 valuations to those in 1932 was 72 per cent in Schuylkill to one per cent in Greene. Note also that all these counties are in the hard or soft coal areas or in the heavily forested areas. Lebanon might come under the head as the only exception.

Increases in the 1922-1932 period range from 294 per cent in Pike to one per cent in Juniata.

3. *Trend by Counties, 1932-1942.*

The period from 1932 to 1942 shows a different picture. There was a little over a one billion drop in total assessed valuation throughout the State. Only thirteen counties showed a net increase from 1932 to 1942. They are in order of their increase as follows: Wyoming, McKean, Pike, Montgomery, Cumberland, Lancaster, Dauphin, York, Delaware, Northampton, Crawford, Allegheny and Centre. The range is from 58 per cent to one per cent. Most of the counties showing increases in this depression decade are located in the southeastern part of the State in the rich Philadelphia metropolitan area and in the rich agricultural counties of the hinterland to the west. The other scattered counties with increases are forest counties with the exception of Northampton and Crawford, which show a diversity in economic activity.

Fifty-four counties lost in assessed valuation during this period. They range from 35 per cent in Snyder and Northumberland to one percent in Bucks. The counties losing 20 or more per cent include Snyder, Northumberland, Philadelphia, Schuylkill, Indiana, Jefferson, Greene, Armstrong, Clearfield, and Fayette—mostly located in industrial and coal mining areas.

A complete table of assessed valuations by counties for 1922, 1932, and 1942, with percentages of increases or decreases, will be found in Table No. 1 following this section of the report.

4. *Third Class City Assessments Made by County.*

In 1922, the assessment of real estate made for the county in municipalities that are at present cities of the third class totalled $980 million. By 1932, this had increased to $1,289 million, or 31 per cent. But by 1942, it had dropped back slightly to $1,222 million, a decrease of 5 per cent from 1932. From 1922 to 1942, therefore, there was a total increase of $242 million, or, roughly, 25 per cent.

This compares favorably with assessments for the entire county in the same period and made under the same auspices. From 1922 to 1932, total county assessments for the State as a whole increased 27 per cent, but from 1932 to 1942, they lost 13 per cent. The totals in 1942 for the counties increased 10 per cent over 1922. In other words, the cities of the third class gained 25 per cent in this twenty-year period, while the State as a whole gained only 10 per cent.

Only six of the forty-six cities of the third class decreased in assessed valuation made for the county in the period from 1922 to 1942. These are Chester, Farrell, Nanticoke, Pittston, Pottsville and Wilkes-Barre. The decreases range from 2.3 to 38 per cent. Four of these cities are in the hard coal region, one has a steel industry and the other is a shipbuilding city.

The other forty gained in assessed valuation made for the county from 1 per cent to 159 per cent in Clairton. Four cities increased more than 100 per cent. They are Clairton, Titusville, New Kensington, and Arnold.

In the same period 36 counties gained in total assessed valuation while 31 lost.

The only two cities that decreased in assessments made for the county in the so-called boom period from 1922 to 1932 were Nanticoke and Pottsville, both in coal mining areas. All other cities increased from 2 per cent in Pittston to 154 per cent in Clairton. Those with increases over 50 per cent were Allentown, Altoona, Arnold, Butler, Clairton, Meadville, New Kensington, and Titusville.

In the same period, 1922 to 1932, 48 counties registered gains while 19 showed losses.

In the "depression" period, 1932 to 1942, twenty-eight cities of the third class showed losses ranging from one per cent in Greensburg to 30 per cent in Chester. Increases were registered in eighteen cities from 1/10 of one per cent in Allentown to 35 per cent in Arnold.

During the same period, only 13 of the 67 counties showed gains.

What have the changes in population in the period to do with changes in assessed valuation? This is almost impossible to answer but certain interesting facts are herewith presented.

In the period 1922-1942 (1920, 1930 and 1940 census figures used) thirty cities gained both in population and assessed valuation. Three lost both in population and assessments: Connellsville, Farrell and Pittston. This direct relationship would appear to be the natural course of events. Four, however, gained in population but lost in assessments. They are: Chester, Nanticoke, Pottsville and Wilkes-Barre. Nine cities lost in population but gained in assessments. They are: Coatesville, Corry, Du Bois, Easton, Franklin, Johnstown, Oil City, Sunbury and Titusville.

From 1922 to 1932, thirty-four cities gained both in population and assessments, and one lost in both. But two—Nanticoke and Pottsville—gained in population but lost in assessments. Nine cities lost in population but gained in assessments. These were: Butler, Corry, Du Bois, Farrell, Johnstown, Monongahela, Pittston, Sunbury and Titusville.

From 1932 to 1942 fifteen cities gained both in population and assessments, while eighteen lost both. Ten gained in population but lost in assessments. These are: Butler, Chester, Connellsville, Du Bois, Greensburg, Hazleton, Monongahela, Pottsville, Uniontown and Washington. Three—Arnold, Bradford and Easton—lost in population but gained in assessments.

It must be remembered the figures here used were assessments made for county purposes. These are prepard by assessors, elected by the people in wards or, in second and third class counties, appointed by county officials. Most cities of the third class have different assessments for city and school purposes which are prepared under the direction of city officials. Some of these, however, use the county assessments for city and school purposes. For city assessments made by county authorities, see Table No. 2 following this section of the report.

5. *Third Class City Assessments Made by City.*

The valuation of real property by city authorities for city and school purposes in 44 cities of the third class [9] shows a decrease of $63 million, or about four per cent from 1936 to 1942. The total 1936 figures were $1,580,947,000; in 1942, they were $1,518,143,000.[10]

Twenty-six cities decreased in valuations, eighteen increased. The great bulk of the total decreases were registered in two cities: Erie with a drop of $21 million, even with a rise from 70 to 100 per cent valuation, and Reading with a loss of about $27 million.

The largest increases are found in Allentown with almost $3½ million, Lancaster with $2 million, New Kensington with $1½ million, Chester, McKeesport and York each with $1 million.

Complete tables of assessed valuations made by city authorities in cities of the third class appear following this section of the report.

6. *Relation of Assessments to Present Day Values.*

A mere study of assessments does not necessarily tell the whole story, for, in many instances, while assessments have been reduced the reductions have not always kept pace with the decline in market values.

In greater or less degree the problem of declining assessments exists in metropolitan areas all over the country, and attention is being directed to it as one of the essentials that must be corrected to restore blighted areas and to check the spread of further blight.

TABLE No. 1—ASSESSED VALUATION OF TAXABLE REAL ESTATE

PENNSYLVANIA COUNTIES: 1922, 1932, 1942

Counties	*1940 Population*	*Valuation of Real Estate: 1922*	*Valuation of Real Estate: 1932*	*% Increase or Decrease 1922-1932*	*Valuation of Real Estate: 1942*	*% Increase or Decrease 1932-1942*	*% Increase or Decrease 1922-1942*
Adams	39,435	$15,728,000	$16,925,000	7.6%	$15,812,000	-6.5%	.5%
Allegheny	1,411,539	1,349,213,000	1,819,590,000	34.8	1,839,403,000	1.1	36.3
Armstrong	81,087	60,744,000	55,645,000	-8.3	44,731,000	-19.6	-26.3
Beaver	156,754	78,004,000	97,957,000	25.5	92,111,000	-5.9	18.
Bedford	40,809	8,479,000	16,463,000	94.1	14,451,000	-12.2	70.4
Berks	241,884	144,663,000	204,091,000	41.	191,561,000	-6.1	32.4
Blair	140,358	55,354,000	70,654,000	27.6	62,193,000	-11.9	12.3
Bradford	50,615	20,262,000	19,374,000	-4.3	17,541,000	-9.4	-13.4
Bucks	107,715	45,583,000	70,005,000	53.5	69,572,000	-.6	52.6
Butler	87,590	36,476,000	68,850,000	88.7	58,123,000	-15.5	59.3
Cambria	213,459	149,631,000	155,287,000	3.7	135,517,000	-12.7	-9.4
Cameron	6,852	2,531,000	2,145,000	-15.2	2,097,000	-2.2	-17.1
Carbon	61,735	28,448,000	30,938,000	8.7	26,641,000	-13.8	-6.3
Centre	52,608	14,316,000	15,364,000	7.3	15,430,000	.4	7.7
Chester	135,626	79,483,000	107,234,000	34.9	106,235,000	-.9	33.6
Clarion	38,410	9,391,000	9,632,000	2.5	8,883,000	-7.7	-5.4
Clearfield	92,094	20,227,000	18,318,000	-9.4	14,375,000	-21.5	-28.9
Clinton	34,557	13,000,000	12,088,000	-7.	11,015,000	-8.8	-15.2
Columbia	51,413	15,074,000	30,822,000	104.4	27,147,000	-11.9	80.
Crawford	71,644	25,475,000	35,543,000	39.5	35,778,000	.6	40.4
Cumberland	74,806	27,998,000	46,605,000	66.4	49,406,000	6.	76.4
Dauphin	177,410	97,516,000	118,533,000	21.5	123,045,000	3.8	26.1
Delaware	310,756	145,496,000	280,831,000	93.	287,183,000	2.2	97.3
Elk	34,443	10,661,000	9,228,000	-13.4	8,390,000	-9.	-21.3
Erie	180,889	96,006,000	120,088,000	25.	119,166,000	-.7	24.1
Fayette	200,999	102,912,000	85,893,000	-16.5	67,474,000	-21.4	-34.4
Forest	5,791	2,254,000	1,746,000	-22.5	1,656,000	-5.1	-26.5
Franklin	69,378	34,232,000	35,479,000	3.6	34,010,000	-4.1	-.6
Fulton	10,673	2,234,000	2,179,000	-2.4	2,090,000	-4.	-6.4
Greene	44,671	50,686,000	50,230,000	-.8	38,927,000	-22.5	-23.2
Huntingdon	41,836	20,650,000	21,946,000	6.2	19,505,000	-11.1	-5.5
Indiana	79,854	54,268,000	46,553,000	-14.2	33,960,000	-27.	-37.4

Jefferson	54,090	13,827,000	24,801,000	79.3	18,162,000	-26.7	31.3
Juniata	15,373	4,597,000	4,645,000	1.	4,575,000	-1.5	-.4
Lackawanna	301,243	133,771,000	191,305,000	43.	165,088,000	-13.7	23.4
Lancaster	212,504	112,979,000	136,746,000	21.	141,699,000	3.6	25.4
Lawrence	96,877	55,756,000	70,116,000	25.7	59,096,000	-15.7	5.9
Lebanon	72,641	194,396,000	64,829,000	-66.6	63,538,000	-1.9	-67.3
Lehigh	177,533	94,253,000	148,288,000	57.3	148,262,000	-.1	57.3
Luzerne	441,518	360,512,000	334,344,000	-7.2	275,501,000	-17.5	-23.5
Lycoming	93,633	26,571,000	35,564,000	33.8	31,976,000	-10.	20.3
McKean	56,673	17,768,000	27,366,000	54.	34,406,000	25.7	93.6
Mercer	101,039	51,951,000	58,285,000	12.1	53,758,000	-7.7	3.4
Mifflin	42,993	12,793,000	15,679,000	22.5	15,311,000	-2.3	19.6
Monroe	29,802	9,465,000	18,046,000	90.6	16,851,000	-6.6	78.
Montgomery	289,247	171,067,000	276,477,000	61.6	297,704,000	7.6	74.
Montour	15,466	4,876,000	5,022,000	2.9	4,584,000	-8.7	-5.9
Northampton	168,959	92,143,000	115,361,000	25.1	117,489,000	1.8	27.5
Northumberland	126,887	80,898,000	64,075,000	-20.7	41,616,000	-35.	-48.5
Perry	23,213	7,818,000	9,557,000	22.2	9,003,000	-5.7	15.1
Philadelphia	1,931,334	2,158,300,000	3,453,910,000	60.	2,496,649,000	-27.7	15.6
Pike	7,452	2,229,000	8,787,000	294.1	10,114,000	15.1	353.7
Potter	18,201	5,653,000	4,625,000	-18.8	4,511,000	-2.4	-20.2
Schuylkill	228,331	492,298,000	137,188,000	-72.1	105,307,000	-23.2	-78.6
Snyder	20,208	4,489,000	10,275,000	128.9	6,644,000	-35.3	48.
Somerset	84,957	36,175,000	32,564,000	-9.9	28,215,000	-13.3	-22.
Sullivan	7,504	3,720,000	2,978,000	-19.9	2,636,000	-11.4	-29.1
Susquehanna	33,893	17,240,000	18,314,000	6.2	15,633,000	-14.6	-9.3
Tioga	35,004	14,512,000	13,008,000	-10.3	11,484,000	-11.7	-20.8
Union	20,247	8,124,000	8,345,000	2.7	7,832,000	-6.1	-3.5
Venango	63,958	27,503,000	34,476,000	25.3	32,959,000	-4.4	19.8
Warren	42,789	21,232,000	22,861,000	7.6	20,118,000	-11.9	-5.2
Washington	210,852	131,919,000	142,360,000	7.9	116,442,000	-18.2	-11.7
Wayne	29,934	10,157,000	14,329,000	41.	13,771,000	-3.8	35.5
Westmoreland	303,411	154,150,000	155,084,000	.6	151,307,000	-2.4	-1.8
Wyoming	16,702	3,960,000	5,219,000	31.8	8,257,000	58.2	108.5
York	178,022	62,674,000	77,284,000	23.3	80,264,000	3.8	28.
Total		$7,416,771,000	$9,418,349,000	27.	$8,184,190,000	-13.1	10.3

Source: 1922, 1932, 1942 Assessment Reports submitted to the Department of Internal Affairs. Controller's Report for 1942 used for Allegheny County. 1941 Assessment Report used for Lackawanna County.

TABLE No. 2—REAL ESTATE VALUATIONS OF THIRD CLASS CITIES MADE BY THE COUNTIES: 1922, 1932, 1942

Cities	*1940 Population*	*Valuation of Real Estate: 1922*	*Valuation of Real Estate: 1932*	*% Increase or Decrease 1922-1932*	*Valuation of Real Estate: 1942*	*% Increase or Decrease 1932-1942*	*% Increase or Decrease 1922-1942*
Allentown	96,904	$58,242,574	$103,297,677	77.4%	$103,425,054	.1%	77.5%
Altoona	80,214	31,962,714	49,955,757	56.3	43,821,263	-12.3	37.
Arnold	10,898	2,612,180	4,251,240	62.7	5,720,075	34.6	119.
Beaver Falls	17,098	8,759,947	12,292,636	40.3	11,282,414	-8.2	28.8
Bethlehem	58,490	35,933,545	44,269,184	23.2	47,209,889	6.6	31.3
Bradford	17,691	5,396,315	6,792,480	25.8	7,363,160	8.4	36.4
Butler	24,477	14,078,526	31,020,330	120.3	25,663,000	-17.3	82.3
Carbondale	19,371	8,153,359	10,520,595	29.	10,105,902a	-3.9	24.
Chester	59,285	40,613,950	47,279,080	16.4	32,892,671	-30.4	-19.
Clairton	16,381	10,297,560	26,176,500	154.2	26,705,569a	2.	159.3
Coatesville	14,006	9,543,545	11,723,155	22.8	11,487,760	-2.	20.4
Connellsville	13,608	5,262,450	6,174,525	17.3	5,926,537	-4.	12.6
Corry	6,935	2,637,784	3,387,520	28.4	3,409,997	.7	29.3
Du Bois	12,080	3,018,370	3,231,963	7.1	3,048,468	-5.7	1.
Duquesne	20,693	17,063,430	21,271,650	24.7	20,743,513a	-2.5	21.6
Easton	33,589	22,634,087	29,107,066	28.6	29,742,759	2.2	31.4
Erie	116,955	61,030,085	79,814,076	30.8	81,650,321	2.3	33.8
Farrell	13,899	9,380,770	10,575,905	12.7	9,163,320	-13.4	-2.3
Franklin	9,948	5,527,155	7,158,370	29.5	6,837,840	-4.5	23.7
Greensburg	16,743	11,814,720	14,161,150	19.9	13,991,900	-1.2	18.4
Harrisburg	83,893	61,761,437	77,432,675	25.4	80,374,975	3.8	30.1
Hazelton	38,009	21,284,904	24,219,466	13.8	23,400,923	-3.4	10.
Jeannette	16,220	5,571,520	7,896,330	41.7	8,925,975	13.	60.2
Johnstown	66,668	62,826,130	71,556,970	13.9	62,967,690	-12.	.2
Lancaster	61,345	31,501,595	41,982,078	33.2	42,643,453	1.5	35.3
Lebanon	27,206	20,052,662	26,936,403	34.3	27,190,371	.9	35.6
Lock Haven	10,810	4,371,225	4,778,345	9.3	4,811,700	.7	10.
McKeesport	55,355	44,900,860	58,908,290	31.2	59,521,410a	1.	32.6
Meadville	18,919	5,555,135	9,832,065	76.9	10,975,115	11.6	97.5

Monessen	20,257	10,717,500	15,409,050	43.8	13,425,000	–12.9	25.3
Monongahela	8,825	3,716,760	4,437,115	19.4	4,157,065	–6.3	11.8
Nanticoke	24,387	15,611,388	13,352,465	–14.5	10,833,779	–18.9	–30.6
New Castle	47,638	32,405,613	43,321,281	33.7	36,142,250	–16.6	11.5
New Kensington	24,055	6,562,640	12,681,185	93.2	14,739,825	16.2	124.6
Oil City	20,379	10,757,150	13,650,940	26.9	13,349,500	–2.2	24.1
Pittston	17,828	9,145,169	9,314,424	1.9	8,466,689	–9.1	–7.4
Pottsville	24,530	22,353,616	14,620,187	–34.6	13,778,508	–5.8	–38.4
Reading	110,568	85,883,393	115,895,200	34.9	103,689,820	–10.5	20.7
Sharon	25,622	14,006,740	17,908,150	27.9	16,844,261	–5.9	20.3
Sunbury	15,462	5,297,090	5,968,075	12.7	5,723,765	–4.1	8.1
Titusville	8,126	2,704,210	5,336,845	97.4	5,423,483	1.6	100.6
Uniontown	21,819	8,069,210	11,943,170	48.	11,239,570	–5.9	39.3
Washington	26,166	10,829,215	14,567,420	34.5	13,903,785	–4.6	28.4
Wilkes-Barre	86,236	82,977,297	93,911,830	13.2	78,880,248	–16.	–4.9
Williamsport	44,355	14,975,240	20,978,410	40.	19,609,814	–6.5	30.9
York	56,712	22,333,580	29,545,650	32.3	30,708,896	4.	37.5
Total		$980,134,345	$1,288,844,878	31.4	$1,221,919,282	–5.2	24.7

Note: a—1941 figures used.

Source: 1922, 1932, and 1942 Assessment Reports submitted to the Department of Internal Affairs.
1941 Annual Report of Lackawanna County.
1941 Controller's Report of Allegheny County.

TABLE No. 3—VALUATION OF TAXABLE REAL ESTATE, 1936 and 1942—Made by the Cities

Cities	*City Valuation Taxable Real Estate: 1936*	*City Valuation Taxable Real Estate: 1942*	*Amount of Increase or Decrease City Valuations 1936 to 1942*
Allentown	$102,579,735	$106,003,700	$3,423,965
Altoona	75,827,021	71,822,590	–4,004,431
Arnold	....	5,715,700	....
Beaver Falls	12,081,310	11,857,785	–223,525
Bethlehem	62,714,798	61,689,715	–1,025,083
Bradford	12,079,200	12,796,025	716,825
Butler	29,018,000	27,365,800	–1,652,200
Carbondale	10,629,625	10,137,734	–491,891
Chester	54,046,054	55,047,140	1,001,086
Clairton	25,809,325	26,780,270	970,945
Coatesville	14,339,725	14,280,190	–59,535
Connellsville	7,428,946	7,320,910	–108,036
Corry	4,391,025	4,815,455	424,430
Du Bois	4,499,815	4,423,625	–76,190
Duquesne	25,146,830	25,291,455	144,625
Easton	43,985,455	42,139,255	–1,846,200
Erie	145,590,022	123,696,310	–21,893,712
Farrell	10,102,805	9,286,050	–816,755
Franklin	6,768,530	6,421,250	–347,280
Greensburg	14,541,080	14,868,975	327,895
Harrisburg	90,512,730	90,099,530	–413,200
Hazleton	27,100,000	27,126,393	26,393
Jeannette	....	8,961,725	....
Johnstown	73,093,585	69,288,895	–3,804,690
Lancaster	88,639,350	90,711,550	2,072,200
Lebanon	24,523,621	25,196,149	672,528
Lock Haven	4,850,385	4,970,000	119,615
McKeesport	54,742,225	55,927,975	1,185,750
Meadville	10,490,025	11,280,755	790,730
Monessen	15,231,825	14,384,675	–847,150
Monongahela	9,514,810	7,357,378	–2,157,432
Nanticoke	13,224,162	10,721,716	–2,502,446
New Castle	46,419,100	45,710,130	–708,970
New Kensington	13,121,293	14,820,605	1,699,312
Oil City	15,363,616	15,254,405	–109,211
Pittston	10,727,204	9,982,232	–744,972
Pottsville	16,597,273	15,336,178	–1,261,095
Reading	170,143,314	142,356,950	–27,786,364
Sharon	18,318,300	19,205,677	887,377
Sunbury	6,103,320	5,984,985	–118,335
Titusville	5,860,858	5,979,404	118,546
Uniontown	19,165,600	18,916,250	–249,350
Washington	23,417,275	23,327,250	–90,025
Wilkes-Barre	84,219,485	78,593,090	–5,626,395
Williamsport	29,215,030	29,676,910	461,880
York	48,774,230	49,890,470	1,116,240
Total	$1,580,947,000	$1,518,143,000	–$62,804,000

Note: Valuations for Arnold and Jeannette omitted from total for 1942.

Source: 1936 and 1942 Annual Financial Reports submitted to the Department of Internal Affairs.

V. COMMENTS ON LOCAL GOVERNMENT EXPENDITURES

According to the United States Census,[11] the governmental cost payments of Pennsylvania local governments in 1932 and 1942 were as follows: [12]

	1932	*1942*
Counties and Institution Districts	$88,733,000	$78,872,000
Cities, Boroughs and Towns	219,705,000	163,945,000
Townships	19,845,000	23,408,000
School Districts	187,046,000	204,533,000
Total	$515,329,000	$470,758,000

According to the Report of the Local Government Commission,[13] (see accompanying table No. 4), of all local government expenditures in 1942, 36 per cent were spent for education, 25 per cent for debt service, 10 per cent for protection, seven per cent for highways, seven per cent for administration, and about three per cent each for judicial functions, welfare, health and sanitation. Corrections and recreation each received slightly over one per cent for all local government expenditures. In other words, education, debt service, protection, highways, and administration get the largest share of the expenditure dollar of Pennsylvania local governments.

The significance of the large share given to debt service is at once apparent. It is that local governments have mortgaged themselves way ahead of a pay-as-you-go status. It is an indication that present current revenues are definitely smaller than actual needs—and have been for a long time. Furthermore, the fact that each class of local unit—from second class townships with 11% of their expenditure going for debt service to Allegheny County with 46% is an indication of the general diffusion of the condition.

Expenditures for the 65 third to eighth class counties are for the following general classes according to their percentage of the total: debt service, administration, welfare, judicial, corrections and highways.

In cities as a whole, debt service, protection, highways and health rank high. In boroughs and first class townships the same situation obtains. In second class townships, highways take over 70 per cent of the expenditure dollar, and in school districts education takes 80 per cent.

The problem of re-allocation of local and State functions should receive careful study not for the purpose of decreasing costs at one level and increasing them at another, but to ascertain which level should administer them on the basis of the best possible service to the citizens, the proper diffusion of governmental powers, and the efficiency and economy of the procedure. So far allocation of functions has been a hit-and-miss process. No stable formula or set of principles has ever been evolved.

TABLE No. 4—PERCENTAGE EXPENDITURES BY FUNCTION ARE OF TOTAL OPERATING EXPENDITURES OF LOCAL GOVERNMENT UNITS: 1942

	General Admin-istration	*Judicial*	*Pro-tection*	*High-ways*	*Health and Sanita-tion*	*Libraries and Recreation*	*Education*	*Welfare*	*Correc-tions*	*Mis-cellaneous*	*Debt Service*	*Total*
2nd Class County (Allegheny)	16. %	14.1%	— %	7.7%	— %	2.9%	— %	4.1%	5.8%	2.6%	46.3%	100. %
3-8 Class County ...	21.9	13.9	—	3.6	—	—	—	19.6	9.1	8.5	23.2	100
1st Class City (Philadelphia) ...	12.	4.8	24.	9.9	4.	3.9	—	2.6	1.8	1.8	34.7	100
2nd Class City (Pittsburgh)	8.5	—	25.7	10.7	11.2	7.1	—	3.8	—	6.7	25.9	100
2-A Class City (Scranton)	8.5	—	39.2	11.9	7.8	4.8	—	—	—	14.6	12.9	100
3rd Class Cities	10.1	—	26.3	16.8	9.1	4.6	—	—	—	7.6	25.1	100
Boroughs	12.8	—	23.2	25.3	7.7	3.	—	—	—	7.9	19.7	100
1st Class Twps.	11.8	—	29.2	17.1	12.7	2.6	—	—	—	4.2	22.1	100
2nd Class Twps.	9.2	—	2.8	69.9	—	—	—	—	—	7.2	10.7	100
School Districts	—	—	—	—	—	—	80.2	—	—	—	19.7	100
Total	7.4	2.9	9.6	7.4	2.5	1.7	36.2	2.8	1.5	2.8	24.6	100

Source: Op. cit. Local Government Commission. Page 56. (Data processed for percentages.)

VI. INDEBTEDNESS OF LOCAL GOVERNMENTS

It should be a great satisfaction to the Commonwealth as a whole to know that Pennsylvania local governments have reduced their net bonded indebtedness over $214 million from 1931 to and including 1942. According to Henry W. Van Pelt, Director of the Bureau of Statistics of the Department of Internal Affairs, in an article in the department bulletin, "Bonded debt of Pennsylvania counties and municipalities was lower at the close of 1942 than at any time since 1926." [14] The process is still going on during the war because of restrictions on public works. Bonds are being paid off on schedule, and even ahead of schedule where there are callable bonds outstanding. Capital reserves, allowed by legislation in 1943, are being established in many municipalities.

The net bonded indebtedness of the several classes of local units as of December 31, 1942 was as follows:

Counties	$140,216,698
Institution Districts	2,689,553
Cities	458,236,092
Boroughs	40,553,593
Townships	16,280,548
School Districts	201,798,526
Total	$859,775,010

Of the cities' debt, Philadelphia owed $351 million, Pittsburgh $56 million, Scranton $2½ million, and the 46 third class cities $49 million. The 61 first class townships had about 12 million of the total township debt, with the 1,517 second class townships registering less than $4 million. More than sixty per cent of the county bonded indebtedness was incurred by Allegheny County, while ten counties were totally free of debt.

VII. FINANCIAL ADMINISTRATION OF LOCAL GOVERNMENTS

In evaluating the condition of finances in Pennsylvania local units expenditures, revenues, assessments and indebtedness are of paramount importance. Nevertheless, the place of sound financial administration in the picture cannot be minimized. No machine so extensive and so scattered as that of Pennsylvania local government can operate successfully if the financial procedures and practices are unworthy of the scope and nature of the job to be done. Pennsylvania local government is a half billion dollar business as to current operations and a billion dollar business as to liabilities.

Let us therefore list and briefly state some of the problems in this field. We will include only those that have from time to time received widespread consideration and even previous legislative attention.

1. *Assessment of Taxable Property*

The present condition of local assessments still is, to put it mildly, chaotic. But there have been recent improvements such as:

a. Establishment by the legislature of county-wide organization for assessments in the seven counties of the 1st to 3rd classes, with the abolition of the elected assessors therein.

b. Establishment by the Act of 1943 of the office of Chief Assessor in the sixty 4th to 8th class counties. The new official is to work out modern procedures in the county commissioners' office and to guide the work of the elected assessors.

c. The gradual improvement of assessment practices in some of the counties and the growing acceptance of modern methods of assessment.

d. The development of in-service training for assessors in thirty counties using a specially prepared Assessors' Manual, the first ever used by Pennsylvania elected assessors.

But still much remains to be done if in the post-war period the assessment of real property does not break down of its own weight. Equalization of assessments between individual property owners, and between different local government units has not as yet been achieved in most jurisdictions.

2. *The Collection of Local Taxes*

There are perhaps 2,700 local tax collectors in cities, boroughs and townships who collect over $300 million in taxes each year. It is estimated that a substantial number earn less than $200 a year in fees. There are in boroughs and townships independently elected officials who do not work under any local or State agency. Their methods generally are not uniform, modern and administratively sound. All, except in cities, are under the fee system and limited to 5 per cent of the amount of the taxes collected but local levying bodies may and often do lower this rate. Some collectors get extremely high compensation with little effort; many others receive a mere pittance. The best study of the Pennsylvania local tax collector was made more than a decade ago by Blake Nickleson of the University of Pennsylvania and published by the Department of Revenue of the Commonwealth. His conclusions pointed to specific improvements and an overhauling of the entire system.

The Local Government Commission has suggested to the 1945 General Assembly a codification of local tax collection statutes with improvements in present practices regarding uniformity of discounts, penalties, dates of collections, bonds and other such important subjects. It is a step in the right direction, but does not alter the basic system.

In cities of the third class where the city treasurers were established by law as the collectors of all local taxes within the city on a legislatively enacted salary basis, the future direction of improvement has been set. Also in townships of the first class the elected treasurer is also tax collector, although paid by fee. Such development might easily be applied to boroughs and then as the treasurer and tax collector he could be paid a salary consistent with the work and responsibility involved. In the rural townships of the second class, the possibility of collectors for a number of contiguous townships could be examined, as well as the possibility of eliminating the elected collector and substituting collection by the county treasurer or his aides who could be nominated by the township supervisors for each particular district.

3. *The Levying and Spending of Local Government Revenues*

The responsibility for the levy of taxes and expenditure of money rests upon the governing bodies of the various local units. Generally speaking, local officials have a record of high integrity, careful deliberation and detailed knowledge of local conditions in dealing with finances. The limits set by the State as to millage and indebtedness are not harsh and in most cases are not dangerously approached. The requirement that all local units use the forms for budgets and annual reports submitted to them by the Department of Internal Affairs and other State agencies has worked for a uniform accounting system throughout the local units of the State as a whole, as well as uniform reporting and with it comparable data on local finances. This has tended to raise the level of financial officials in importance and responsibility. Governing bodies have been guided more and more by their advice. Deficiency spending has greatly decreased due to the provisions in the budget law.

There is, however, the problem of expenditures made mandatory by the cumulation of State laws passed from time to time without regard for the overall financial condition of local units. While we do not deny that certain expenditures must be mandatory there has never been an examination of the total situation with a view of determining those items which should be made once again the responsibility of the governing bodies who are the representatives of the local taxpayers.

Another problem is that of surcharge of the members of the local governing bodies for the expenditure of monies in a manner technically contrary to the law where there was no fraud or loss to the local unit of government. Today, as a result of certain decisions of the courts, there is a widespread fear on the part of local officials of surcharge possibilities. Legislation protecting them as well as the local unit would do much to enhance the attractiveness of community service as a member of a governing body, especially in those units where there is no compensation for such officials.

4. *The Procedure for Increasing Indebtedness*

The legislature of 1941 passed an act prepared by the Local Government Commission codifying the provisions under which local governments may incur indebtedness within the constitutional debt limits. This was a real milestone in the progress towards a stable debt situation. The local units of the State as a whole have an enviable record of debt and interest payment.

But there are areas where there are defaults of both interest and principal. There is need for additional State supervision of local indebtedness in such local units, and legislation might be considered where under certain unsatisfactory conditions, these communities would be placed under additional restraints and supervision.

5. *County-wide Cooperation of Local Government in Fiscal Policy*

The real estate of a property owner is subject to taxes on the part of three tax levying bodies, namely, the county which for all practical purposes includes the institution district, the school district, and the city, borough or township in which the property is located. But all three bodies levy taxes and engage in a spending program without any cooperation whatsoever. There never has been provision for joint deliberation. A suggestion might be made for legislation which would make mandatory a yearly meeting prior to the making of the annual budget and the levying of the taxes of all governing bodies within the county for the purpose of discussing the overall fiscal policies of the local governments within the county. This "town meeting" of local officials should probably be called by the county commissioners and be implemented by studies of matters of mutual interest. An overall county-wide fiscal understanding is essential to improvement in assessments, collections, tax levies, budgets, planning, public works programs, audits and all other financial problems of the county community.

VIII. THE NEED FOR INCREASED REVENUES FOR LOCAL GOVERNMENTS

In view of the declining real estate valuations, the increasing expenditures, and the additional post-war needs of Pennsylvania local governments, it is appropriate to review the present sources of revenue and to consider future possibilities.

1. *The Real Estate Property Tax*

It is generally conceded that little additional revenue can be squeezed from real estate valuations. There is no "scientific" way to tell exactly how much tax real estate can stand. Conditions vary in different localities and at different times, depending largely upon the increase of income of the property itself and of the property owner. This is of course tied up with general economic prosperity of the community, the State, and the nation. But there are warnings that can be heard not only by the tax levying official in his home community but by any observer of conditions as a whole throughout the State. The high rate of tax delinquency during the depression era, and the large amount of tax abandoned property now in the hands of county governments are ample evidence that in the depression, at least, the real estate tax has reached and overflowed its saturation point. Efforts of organized real estate to obtain a constitutional 10 mill overall tax limit on local government was another sign of the direction of thought and action. Even during the war boom, while many governments retained their pre-war tax rate and developed cash surpluses, very few government bodies entertained any thought of increasing their millages even though prosperity was apparent at every hand. It is indeed optimistic to believe that tax rates will be increased for post-war expenditures when drastic economic adjustments are bound to come within the community.

Raising tax assessments to or approaching 100 per cent will not solve the problem because the individual taxpayer looks at his overall bill. This is not to say that equalization in assessments is not desirable. In fact, it is necessary—but for the purpose of keeping the present system from disintegration, not to provide larger revenues. Some additional revenues might accrue in many places if all taxable property be properly located and registered, others might come through equalization especially in the case of large holdings. But with all possible improvements to the system, no large additional revenue can be expected from real estate in Pennsylvania under the present legislative restraints and exemptions.

The question of the presently tax exempted property should undoubtedly be considered but before any conclusion can be drawn a thorough study should be made.[15] A special word must be said about the great and recent increase of federally-owned property, both in the rural and urban areas of Pennsylvania. While the national Congress is considering in-lieu payments to local governments, the situation is not cleared enough to prophesy returns to local governments from those sources. Many municipalities have suffered actual loss in assessed valuations in their communities, even during the war boom.

2. *The Occupation Tax*

It was estimated that in 1942 a total of $2.4 million of occupation taxes was collected by local governments in Pennsylvania.[16] This was 1½ per cent of the total taxes collected. The original purpose of the occupation tax was, of course, to reach persons who lived in the community but who were not subject to the real estate taxes. This is still the theory involved but in practice it is agreed that the bulk of these taxes are paid by real estate owners and the delinquency is high among non-real estate owners chiefly because the penalties for non-payment are not enforced or enforceable, and because the tax is hard to collect in the small amounts which are levied.

A study of receipts of occupation taxes in fifty boroughs selected at random show that in 1942 per capita receipts ranged from $.07 to $1.18 per capita, and that the percentage that the occupation tax receipts was of the total real estate and occupation tax receipts ranged from 1 to 23 per cent. In sixteen of the fifty boroughs, the percentage was 10 per cent or over.[17]

In a similar study of first class townships, it was found that 17 of the 60 did not levy an occupation tax and that in thirty of the others the collections ranged from less than a cent per capita to $.65. The percentage that occupation tax was of the total tax receipts ranged from almost nothing to ten per cent.[18]

Likewise, it was shown that in an exhaustive study of the tax that in selected boroughs the rate of collection was much lower than that of the real estate tax, and that a higher per cent of real estate owners than non-real estate owners paid the tax, and that the costs of collection were unduly high.[19]

Undoubtedly the occupation tax as now levied needs legislative attention. It might be abolished in favor of a "per capita" tax such as is levied in school districts and in some of the cities of the third class. To make it worthwhile it should be increased in total amount collected. Perhaps one tax uniting the demands for a levy on non-real estate owners of all local units should be collected by the county and redistributed, or the entire field should be left to one class of local government.

3. *The "Per Capita" Tax*

The per capita tax is easier to assess than the occupation tax and easier to handle. It is used in a substantial way in most school districts—the limit being $5 per capita. It is estimated that in 1942 about $8.8 million were collected by the school districts, or 6.1% of a total of $145 million.[20]

Cities of the third class may use this tax at a limit of $1 in lieu of the occupation tax and a number of them have adopted it.

Some sort of a local tax for non-real estate owners should be levied because this group of citizens is not paying directly their share of local government costs.

4. *Revenues from Licenses, Fees and Departmental Earnings*

Non-tax revenues of local governments in Pennsylvania in 1942 were as follows: [21]

	Non-tax Revenue	*% Non-tax Revenue is of Total Revenue*
Counties and Institution Districts	$7,736,495	11.7
Philadelphia (city-county)	15,046,512	16.8
Pittsburgh	4,546,871	20.6
Scranton	295,908	12.3
Cities of the Third Class	5,411,768	20.5
Boroughs	5,518,897	20.8
1st Class Townships	1,336,674	17.8
2nd Class Townships	1,738,320	14.3
School Districts	4,955,641	2.5
Total non-tax Revenue of Local Governments	$46,587,086	10.3

These non-tax revenues include receipts from licenses and fees, interest and rent, fines and forfeits, departmental earnings, grants and gifts and other such items.

For capita revenues from these sources vary from locality to locality indicating diverse practices. For example, in cities of the third class in 1942, revenue from licenses and permits ranged per capita from $.17 to $1.87, and from departmental earnings from nothing to $3.33.[22]

Per capita receipts from licenses and permits in 61 first class townships in 1942 ranged from nothing to $2.30, and from departmental earnings from nothing to $8.20.[23]

The point about this "internal revenue" is that within the limits of the law it is, and rightly so, an affair of the governing body whether it wishes to levy such fees and collect such revenues. The laws are not mandatory but optional. However, in view of the abolition in 1943 of state-collected mercantile taxes, some thought might be given to redrafting optional legislation allowing more scope to local governments' powers in this field. The experience of some local units indicates quite sizeable returns may be enjoyed and thus the general fund may be augmented.

On the other hand, "nuisance taxes" are neither profitable from the point of view of collection nor are they popular, and drastic increases in them will not be undertaken except as a last resort.

The whole problem of departmental earnings in municipalities (not counties) is on a par with that of licenses and fees, but with this added feature that as a principle of financial policy municipalities will be forced to extend additional services to its citizens only by charging adequate service charges. This applies to ash and rubbish removal, sewage disposal, garbage hauling, special police services, parking meters, recreation services and other such functions. It applies also to utilities in general which are undertaken by the municipalities.

Of special note is the extension of these services to areas outside municipal boundaries. This has been a moot problem in many municipalities. People move outside limits, evading taxation in the city, and then expect the same services as within the city at the same or lower cost. Municipalities should be encouraged as they are now and to an even greater extent by legislation to extend their services where necessary, but should be protected in their right to charge adequate service fees. Only when some uniform framework for this situation is worked out can any solution of the "metropolitan" problem be found.

National and State governments have "gone into business"; local units should be entitled to "go into business" when it is deemed necessary by their constituents. Many functions now undertaken by State and national governments in this field are rightly the job of the local units and could be organized most adequately in this manner. Public housing and urban redevelopment are only two examples. For large increases in services rendered cannot generally be met out of the general funds which are composed largely of revenue from real estate.

5. *Returns from State-Collected Liquid Fuels Tax*

It is now generally conceded that some change in the motor fund revenue distribution must be made and that the General Assembly of 1945 will act favorably upon the suggestion that cities, boroughs, and first class townships, which now get nothing, should receive a fair share of the returns.

The Joint State Government Commission has been working on this problem during the past year. The associations of local government officials of cities, boroughs and townships through their executive officers have joined hands in asking the General Assembly and Governor for the proceeds of the one cent tax on liquid fuels, or part of it, that now goes to the General Fund of the State for relief purposes. The relief tax will undoubtedly be repealed; the proposal for a constitutional amendment prohibiting the use of any of the liquid fuels tax for other than general highway purposes will be passed a second time. The people as a whole are not concerned with a decrease of one cent in the liquid fuels tax. Therefore, 1945 is the right time to make adjustments. The following material will indicate the need and the conditions that make such distribution necessary.

Who Gets What and How Much

For the year ending May 31, 1943,[24] the following disbursements were made of the Motor License Fund:

Total disbursements		$59,093,917
To Counties	$7,455,016	
To 2nd Class Townships	4,241,206	
Total to Local Governments		11,696,222
Balance disbursed for State program		$47,397,695

In the same year the receipts from the liquid fuels tax were:

From the 1 cent to General Fund for relief	\$11,468,821
From the 2½ cents to Motor License Fund	28,681,251
For the ½ cent to Liquid Fuels Tax Fund (returnable to counties)	5,736,176
Total from Liquid Fuels Tax	\$45,886,248

Highway Costs in Municipalities

While cities, boroughs and first class townships receive no share of the State liquid fuels tax, they have substantial highway costs.

Highway expenditures, for capital outlay and maintenance, for the 46 cities of the third class were \$4,891,375 in 1942. This was 21 per cent of all current city expenditures totalling almost \$23 million. In 35 cities the percentage spent for highways was over 20 per cent total expenditures. These were Reading, Allentown, Harrisburg, Altoona, Johnstown, Bethlehem, New Castle, Williamsport, Hazleton, Easton, Lebanon, Washington, Sharon, Pottsville, Butler, Nanticoke, Uniontown, Oil City, Monessen, Meadville, Pittston, Bradford, Beaver Falls, Greensburg, Clairton, Jeannette, Sunbury, Farrell, Connellsville, Du Bois, Lock Haven, Franklin, Monongahela and Corry. The highest percentage, 40, was found in Lock Haven; the lowest, 13 per cent, was found in Carbondale.

The average per capita expenditures for highways in cities of the third class in 1942 was \$3.02, with ranges in individual cities from \$1.13 in Carbondale to \$5.04 in Greensburg. Likewise it is interesting to note that while total 1942 highway expenditures in cities of the third class were lower than in 1939 because of war-time conditions, 18 cities actually increased in expenditures.[25]

A study of 110 boroughs, including all 47 over 10,000 population, shows that in 1942 highway expenditures amounted to 26 per cent of total governmental expenditures.

In the 61 first class townships, highway expenditures amounted to 20 per cent of the total governmental expenditures in 1942. Total government expenditures were \$6,952,800; highway expenditures including capital outlay and maintenance were \$1,367,415.

It must also be remembered that 1942 highway expenditures were lower than in non-war years, and these proportions would be higher except for shortages of construction materials.

State Highway Mileage in Municipalities

In 1944, the total mileage of the State Highway System was 40,615 miles. Of this the following mileage was found in municipalities:[26]

Philadelphia	154 miles
Pittsburgh	60 miles
Scranton	20 miles
46 cities—3rd class	433 miles
937 Boroughs	2,146 miles
60—1st class townships	756 miles
Total State mileage in urban units	3,569 miles

In addition, the Department of Highways, operating under 1943 P. L. 796 (Act No. 333) has been taking over county highways voluntarily relinquished by the county commissioners. Up to December 5, 1944, 200 miles out of the 1,012 then existing miles of county roads have already been so acquired.

The rest of the State mileage, 37,046 miles, is located in second class townships and comprises the main portion of the State highway system.

In other words, only 12 per cent of the State highway system lies in the urban municipalities of the Commonwealth—those that are at present receiving no portion of the liquid fuels tax.

Road Mileage Maintained by Local Governments

Of the approximately 100,000 miles of public highways, streets and roads in the Commonwealth, about 60,000 have been constructed and are being maintained by local governments. As of May 16, 1942, they are divided as follows:[27]

Philadelphia	1,842 miles
Other Cities	3,922 miles
Boroughs	5,990 miles
First Class Townships	1,676 miles
Second Class Townships	45,137 miles
Counties	1,012 miles
Total	59,579 miles

The Counties' One-Half Cent Return

There is no desire in this report to suggest that counties should be deprived of their one-half cent return. These monies are dedicated to road and bridge construction and maintenance, liquidation of road bonds and payment of interest and State tax, and contributions made by the county commissioners to local units within their jurisdiction.

Cities, boroughs and townships cannot, however, expect financial relief from allocations made to them by the county commissioners from this fund. In the five-year period, 1939-1943, during which the counties received $30 million the following grants were made:[28]

To cities of the third class	$ 106,973
To boroughs	1,115,089
To first class townships	541,589
To second class townships	1,863,241
Total	$3,626,892

This is a yearly average return of $725,378 from the counties to the local units and represents about 12 per cent of the total amount received by the counties.

However, this distribution was not evenly spread throughout the State. Grants were made during this five-year period to cities in only eight counties, to boroughs in forty-three counties, to first class townships in six counties and to second class townships in forty-nine counties.

What Municipalities Get in Other States

Thirty-two States distribute all or part of their liquid fuels tax revenues to counties, townships and cities. All these thirty-two distribute to the counties, and eighteen of them distribute also to cities and other municipalities.[29]

The most common bases of distribution used in these States are population, rural and total mileage, area, and liquid fuels taxes collected. All but ten of these States specify that liquid fuels tax collections must be used for general highway purposes.

In California, the State must spend one-quarter of a cent per gallon on city streets. In Illinois, one cent of the tax goes to cities on the basis of population. Indiana gives $3 million to cities and towns on a population basis; and cities receive also part of the county share. In Kansas, cities receive $250 a mile for State highway connecting links. One cent of the Louisiana tax goes to the City of New Orleans and the State parishes (counties). Maryland gives Baltimore 13¾ per cent of the revenue from the liquid fuels tax. In Michigan part of the county share must go to cities on a population basis and four million dollars goes to townships on a mileage basis. In Nebraska, counties must pay ten per cent of their allotment to cities on the basis of population. In Ohio, 14 per cent goes to cities on the basis of motor vehicle registration. In Oklahoma, about four per cent goes to cities on the basis of population. Oregon gives five per cent to cities. In Washington, 15 per cent goes to the cities on the basis of population. Wisconsin gives each city 20 per cent of the registration fees derived from the city and additional amounts per mile of road. Alabama divides $125,000 among the cities on the basis of population. In North Carolina, cities and towns get one million dollars based on population, State highway mileage and need. In Virginia, cities over 3,500 population are paid $2,500 per mile for maintenance of parts of the State highway system passing through corporate limits and an additional up to $500 per mile for approved construction on State highways in municipalities.

IX. THE METROPOLITAN PROBLEM

The "metropolitan problem" as described here concerns not only highly urbanized sections of the State but all municipalities whose population has overflowed municipal boundaries into adjoining local units whether they be cities, boroughs or townships. In the most congested regions, the county itself has a stake in the problem as a possible coordinator of municipal effort as evidenced by the Metropolitan Plan suggested for the City of Pittsburgh in which the county boundaries were to be those of the enlarged city in the proposed federation.

The situation in which the central cities or municipalities find themselves, whether they be large or small, is common throughout the United States and in fact the Western World. The automobile, the bus, hard-surfaced streets and highways, and in the near future, the airplane, have for many years encouraged and will continue to accentuate migration from the city to the outskirts. Thus, workers live outside municipal limits and work in the municipalities. Likewise industries, especially new war plants, and shopping centers have shown the same propensity until there exist clusters of new communities around the central municipality which are integral parts of the economic and social community but are not a part of the central political unit.

This migration has been accelerated also by conditions within the central municipality. The street system developed in horse and buggy days makes the traffic congestion; buildings in the central core of the city become old and are torn down and rebuilt only at the most advantageous spots. Great patches of the central city become slum and run-down areas. Few people want to live there, businesses and industries seek more open spaces. Real estate values decline, real estate revenues decrease but public expenses increase. The old part of the city becomes increasingly expensive to operate, much of the new taxable wealth of the economic area is on the outside of the municipality.

The repercussions on municipal finance are apparent to all observers and have been living problems to local officials for a long time. They will not get better.

What are the alternatives?

1. *Annexation of outlying areas* to bring into the central municipality all the taxable real estate of the economic community. This is politically impossible. People moved out to get away from the "high taxes" and large debt obligations of the central city.

2. *Taxation of workers in the city who live outside.* This has been done successfully in Philadelphia in the form of a wage tax (originally at the rate of 1½%, now 1%) but its application to municipalities generally would require further study and a more general public acceptance.

3. *An increase to the municipalities of State-collected locally shared non-real estate taxes.* This is an absolute necessity. The first step is the enactment of an adequate distribution of part of the liquid fuels tax to local units in the 1945 General Assembly. Perhaps additional sharing through a State-collected sales or income tax should be studied although this Commission makes no specific recommendations at this time.

4. *Joint administration cooperation between the central municipality* and the outlying units should be encouraged. There is at present legislation in effect to allow joint operation in various functions notably water supply, sewage disposal, health, fire protection, zoning, planning, purchasing, recreation and others. This list should include police. The development of joint municipal authorities has come partially from this need. But progress along this line has been sporadic and haphazard in spite of legislative grants of power.

What is needed are specific studies of procedures whereby this can be done and an education of public and officials alike in such possibilities. There is no real hindrance to such development providing joint action proceeds with the approval of all local governments concerned. It is one of those things that just has not yet developed. In this manner the entire community can be tied into a function and all can pay according to their share of services rendered.

5. *The complete consolidation of the central urban unit* and the outlying rural area in the economic region by the institution of a classification of taxable real property so that urban, semi-urban and rural property may pay taxes under different mill rates. This is now in force in the town of Bloomsburg,

which operates under a special charter. This sort of consolidation is especially desirable and possible in smaller municipalities which are now blighted by hideous outskirts, and which have complicated problems of servicing this urban fringe.

6. *The possibility of instituting a federated municipality* in which each of the member municipalities would keep its identity and some of its powers. The federated municipality would carry on other functions in which a wider range was necessary.

There are several general possibilities for action. The problem needs intensive study by the State legislature and administration before any specific answer can be forthcoming. If municipalities are to progress, to have funds with which to manage, to rebuild their run-down central areas, to control haphazard fringe growth, the metropolitan problem must be approached with all the implements of modern public administration.

X. RECOMMENDATIONS

It is not the purpose of this report to recommend specific legislation. Rather it is to point out in an overall fashion the main problems that local governments will face in the post-war days ahead, and to direct attention to ways and means of solution. Pennsylvania local government as a governmental entity is two hundred and fifty years old. It has deep roots and traditions, some of which are embodied in our State Constitution. It cannot be changed overnight—not even by the General Assembly under whose protection it rests. Rather each change in the procedure of municipal government must receive serious deliberation and study of all interested groups. If, therefore, this report suggests numerous phases for study, it is because this is the only sound manner in which to proceed.

If, also, it is suggested that the Local Government Commission take a number of these questions under advisement in order to work out solutions for legislative consideration, this is done because this Commission is empowered by law to do just that, and has already behind it a record of solid accomplishment. During the interim between the 1945 and 1947 sessions, the Local Government Commission should consider a number of these problems that cannot receive adequate attention in the 1945 session because no proper answer now exists. But this Commission should have (a) either its own staff for research work, or (b) have at its disposal the staffs of other State agencies which are concerned with and trained in the fields of Pennsylvania local government. It should have more money to do its work.

It is here suggested that the 1945 General Assembly give earnest consideration to the following:

1. A fair and equitable distribution of the proceeds of the liquid fuels tax so that the cities, boroughs and townships get a just share.
2. The elimination of State taxation of local units.
    a. The repeal of the four-mill tax on municipal bonds.
    b. The exemption of local units from taxation on liquid fuels used in public service.

These are two instances in which the State taxes its own political subdivisions.

3. The classification and modernization of the system of returns of Commonwealth grants to school districts. The legislative Commission for the Study of the School System will have a proposal ready to submit to the 1945 General Assembly on this subject. Now is the time to reorganize the method that, it is generally agreed, is outmoded and unworkable.

4. The General Assembly should ask the Local Government Commission to study during the interim the following specific subjects and report to it at the 1947 session with appropriate recommendations and necessary legislation.

   a. A thorough survey of government-owned tax-exempt property within the State with a view of finding its location, ascertaining its valuation, and recommending any changes in its present status or devising a system of reimbursement to local governments in lieu of taxation.

   b. An examination of the present system of tax collection with a view of suggesting improvements or changes that would bring about greater economy and efficiency, especially in boroughs and townships.

   c. The modernization of the auditing system of local governments in which elected auditors make a yearly check on revenues and expenditures.

   d. The entire system of local government expenditures made mandatory by legislation should receive study.

   e. The proper allocation of functions between the State and its political subdivisions should receive a thorough study in order to determine what changes might be made to bring about efficiency and economy.

5. The General Assembly should set up a special legislative commission to study the metropolitan problem in its relation to local government, to the local economy and to general needs of the area.

6. The General Assembly should reorganize the need for a comprehensive and continuous study of Pennsylvania local governments. It is suggested that the Bureau of Municipal Affairs in the Department of Internal Affairs be expanded in order properly to carry on this work.

NOTES

1. *Costs of Government in the Commonwealth of Pennsylvania:* Revenues and Expenditures of the Commonwealth and its Political Subdivisions, A Report by the Local Government Commission to the General Assembly, September 1, 1944, p. 56. Basic material was derived from annual financial reports submitted to the Department of Internal Affairs, the Department of Public Instruction, and the Department of Highways of the Commonwealth.
2. *Ibid.,* p. 56.
3. *Ibid.,* p. 56.
4. *Ibid.,* p. 60. Occupation taxes are of minor importance in the total, about 1½ per cent of the total. "Per capita" school taxes, also figured in the total real estate tax revenues for school districts, amounted to 6 per cent of the total taxes collected by school districts. See page 18 of same report. In 1942, City of Pittsburgh comprised a separate institution district.
5. *Ibid.,* p. 56.
6. *Monthly Bulletin,* Commonwealth of Pennsylvania, Department of Internal Affairs, October, 1944.
7. *Ibid.,* December, 1944.
8. *Ibid.,* January, 1945. From an article in the *Monthly Bulletin* of the Department of Internal Affairs, January, 1945. Figures used in this article were taken from County Assessment Reports collected by the Bureau of Statistics, Department of Internal Affairs. Assessed valuation figures include only real estate assessed as taxable property and do not include real estate exempted from taxation, assessed valuations of occupations or assessed valuations of personal property used for county tax purposes.

   As reported by the county commissioners they represent different percentages of actual value in different counties and for that matter different percentages of actual value as reported from the various units of government within the counties. In spite of the fact that these figures have no known relation to actual value, they provide the base upon which local real estate taxes rest. Third class cities may, however, and most of them do, make their own assessments for city and school purposes.
9. Arnold and Jeannette were not cities of the third class in 1936. Data for these cities are omitted from the total for 1942 for purposes of comparison.
10. Figures are taken from annual financial reports submitted to the Department of Internal Affairs. The first year cities of the third class submitted reports was 1936.
11. United States Bureau of the Census, Financial Statistics of State and Local Governments, 1932, p. 1508. Direct information from the Bureau of the Census on comparable data for 1942, still unpublished, for Pennsylvania local governments. United States Census total figures were used because they are relatively comparable. Comparable expenditure data for Pennsylvania local governments collected by the Bureau of Statistics of the Department of Internal Affairs and other departments of the Commonwealth date from 1937, the first year all local governments submitted financial reports to the state. There is no comparable material available from any source before 1932.
12. Governmental cost payments include those for operation and maintenance of general departments, for public service enterprises, for interest and for capital outlays. Repayment of principal of outstanding obligations are not included.
13. Report of the Local Government Commission, *op. cit.,* p. 56. Totals from table 1B processed for percentages.

14. *Monthly Bulletin, op. cit.,* March, 1944. Table by counties.

15. More detailed study and recommendations in regard to the Utility Gross Receipts Tax, Corporate and Municipal Loans Tax and the Personal Property Tax may be found in the confidential report to the Committee on Continuation of the Tax Study of the Joint State Government Commission of the General Assembly by the Tax Advisory Committee.

16. Report of the Local Government Commission, *op. cit.,* p. 18.

17. *Monthly Bulletin, op. cit.,* September, 1944, pp. 25-28.

18. *Ibid.,* November, 1944, pp. 6-8.

19. Leonard S. Schneider, *Pennsylvania's Occupation Tax in Operation,* The Pennsylvania State College, 1942.

20. Report of the Local Government Commission, *op. cit.,* p. 18.

21. *Ibid.,* p. 56.

22. *Monthly Bulletin, op. cit.,* June, 1944, pp. 21-25.

23. *Ibid.,* November, 1944, pp. 6-8.

24. *Biennial Report of the Auditor General* June 1, 1941-May 31, 1943, pp. 150 and 256.

25. From studies made from 1939 and 1942 annual financial reports of cities of the third class by the Bureau of Municipal Affairs, Department of Internal Affairs.

26. *Biennial Report of the Department of Highways,* June 1, 1942, to May 31, 1944, and additional information from the Highway Planning Section of the Department of Highways.

27. *The League of Third Class Cities Magazine,* April, 1943. These figures were furnished to Walter Greenwood, President of the League of Cities of the Third Class, by the Department of Highways. A later total figure, as of December, 1944, is given as 59,712 (including 1,012 miles of county roads), but this is not broken down as to classes of government.

28. Figures obtained from a study of *Receipts and Disbursements of the Liquid Fuels Tax by County Commissioners* for the year 1939 to 1943 by the Joint State Government Commission. (June 16, 1944.)

29. American Municipal Association: *Shared Taxes* by Leo Day Woodworth. November, 1944.